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Office of Inspector General  
United States Department of State

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Office of Audits

March 2020

# **Information Report: Risk Assessment of the Department of State Grant and Cooperative Agreement Closeout Process**

INFORMATION REPORT

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## Summary of Review

The Grants Oversight and New Efficiency (GONE) Act<sup>1</sup> requires Inspectors General of agencies with more than \$500 million in annual grant funding, such as the Department of State (Department), to conduct risk assessments of their respective agencies' grant closeout process to determine whether an audit or review of the agency's grant closeout process is warranted.<sup>2</sup> Accordingly, the Office of Inspector General (OIG) conducted this risk assessment and concludes the risk associated with the Department's grant closeout process is "low."

To conduct this risk assessment, OIG reviewed and relied on grant and cooperative agreement data reported by the Department in 2017 and 2018. These reports were prepared by the Department's Bureau of the Comptroller and Global Financial Services based on data from various sources including the Global Financial Management System, the Payment Management System, the State Assistance Management System (SAMS), and overseas posts. In addition, OIG assessed the Department's closeout process using four criteria: internal controls; the reconciliation performed between SAMS and the Payment Management System; training; and prior audits.

On the basis of the results of this risk assessment, OIG concluded that an audit of the Department's grant and cooperative agreement closeout process is not warranted in FY 2020. However, OIG will include an audit of the Department's grant and cooperative agreement closeout process in its 2-year work plan covering FY 2022 through FY 2023.<sup>3</sup> In the interim, OIG encourages Department officials to continue prudent oversight of its grant and cooperative agreement closeout process and to ensure that all personnel involved in the closeout process follow internal controls intended to safeguard taxpayer funds.

## OBJECTIVE

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OIG conducted this risk assessment to determine whether an audit or review of the Department's grant closeout process is warranted and to recommend the scope, frequency, and number of audits that should be conducted on the basis of the risk assessment.

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<sup>1</sup> Pub. L. No. 114-117 (January 28, 2016).

<sup>2</sup> On November 29, 2017, the Council of the Inspectors General on Integrity and Efficiency informed Congress that it believed that the GONE Act lacked clarity regarding the date by which OIGs must conduct the risk assessment. Therefore, the notification stated that OIGs would complete the risk assessments no later than March 31, 2020.

<sup>3</sup> The most recent audit that was performed of the Department's grant and cooperative agreement closeout process was completed in FY 2013. OIG intends to audit the Department's grant and cooperative agreement closeout process, at a minimum, once every 10 years. Therefore, OIG's 2-year work plan covering FY 2022 through FY 2023 will include an audit of the Department's grant and cooperative agreement closeout process.

## BACKGROUND

The GONE Act required Federal agencies to report on open Federal grant and cooperative agreement awards with periods of performance that had been expired for more than 2 years and not closed out and identify challenges in closing out those awards.<sup>4</sup> Furthermore, the Act required agencies to:

- Submit a report to Congress and the Department of Health and Human Services no later than December 31, 2017, that includes information related to open grant awards and issues with grant closeout.<sup>5</sup>
- Submit updated information to the Department of Health and Human Services within 1 year of submitting the initial report specifying progress in closing out awards.<sup>6</sup>

In addition, the GONE Act requires the OIG of an agency with more than \$500 million in annual grant funding,<sup>7</sup> such as the Department, to conduct a risk assessment to determine if an audit or review of the agency's grant closeout process is warranted.

### The Department's GONE Act Reporting for 2017 and 2018

In November 2017, the Department submitted its initial GONE Act report that identified 432 expired grants and cooperative agreements with a total undisbursed balance of more than \$12 million. Table 1 provides the data included in the Department's 2017 GONE Act report.

**Table 1: Department of State 2017 GONE Act Data**

Category	Number (Amount) of Grants Expired 2–3 Years	Number (Amount) of Grants Expired >3–5 Years	Number (Amount) of Grants Expired >5 Years	Total Number (Amount)
Grants/Cooperative Agreements With Zero-Dollar Balances	109 (\$0)	77 (\$0)	15 (\$0)	201 (\$0)
Grants/Cooperative Agreements With Undisbursed Balances	171 (\$8,433,875)	57 (\$3,682,156)	3 (\$11,907)	231 (\$12,127,938)
<b>Totals</b>	<b>280</b> <b>(\$8,433,875)</b>	<b>134</b> <b>(\$3,682,156)</b>	<b>18</b> <b>(\$11,907)</b>	<b>432</b> <b>(\$12,127,938)</b>

Source: Prepared by OIG from data reported by the Bureau of the Comptroller and Global Financial Services.

<sup>4</sup> Pub. L. No. 114-117, Section 2(e)(3)(A).

<sup>5</sup> Pub. L. No. 114-117, Section 2(a)(1).

<sup>6</sup> Pub. L. No. 114-117, Section 2(b)(1).

<sup>7</sup> Pub. L. No. 114-117, Section 2(c).

In its 2018 GONE Act report, the Department reported progress in closing out the expired grant and cooperative agreements reported in 2017. Specifically, the Department reported that it had closed two-thirds of the expired grants and cooperative agreements identified in 2017 thereby reducing the number of expired awards from 432 to 144. As of November 14, 2018, 144 expired grants and cooperative agreements, totaling approximately \$4.5 million, remained open. Table 2 provides the data reported by the Department in 2018.

**Table 2: Department of State 2018 GONE Act Data**

Category	Number (Amount) of Grants Expired 2–3 Years	Number (Amount) of Grants Expired >3–5 Years <sup>a</sup>	Number (Amount) of Grants Expired >5 Years <sup>b</sup>	Total Number (Amount)
<b>Grants/Cooperative Agreements With Zero-Dollar Balances</b>	0 (\$0)	36 (\$0)	10 (\$0)	46 (\$0)
<b>Grants/Cooperative Agreements With Undisbursed Balances</b>	0 (\$0)	94 (\$4,465,793)	4 (\$5,717)	98 (\$4,471,510)
<b>Totals</b>	<b>0</b> <b>(\$0)</b>	<b>130</b> <b>(\$4,465,793)</b>	<b>14</b> <b>(\$5,717)</b>	<b>144</b> <b>(\$4,471,510)</b>

<sup>a</sup> Includes grants and cooperative agreements reported in the 2–3 years category in the 2017 report that moved to the >3–5 years category in 2018.

<sup>b</sup> Includes grants and cooperative agreements reported in the >3–5 years category in the 2017 report that moved to the >5 years category in 2018.

Source: Prepared by OIG from data reported by the Bureau of the Comptroller and Global Financial Services.

The purpose of this information report is to convey the results of this risk assessment and promote the implementation of management practices that will result in the sound stewardship of U.S. taxpayer dollars. See Appendix A for additional details of the purpose, scope, and methodology of this risk assessment.

## RESULTS

### Department Grant Closeout Process Risk Assessment Results

OIG determined that the risk related to the Department’s grant closeout process is “low.” On the basis of the results of this risk assessment, OIG concluded that an audit of the Department’s grant closeout process is not warranted in FY 2020. However, OIG will include an audit of the Department’s grant and cooperative agreement closeout process in its 2-year work plan covering FY 2022 through FY 2023 because OIG intends to audit the Department’s grant and cooperative agreement closeout process, at a minimum, once every 10 years. In the interim, OIG encourages Department officials to continue prudent oversight of its grant and cooperative agreement closeout process and to ensure that all personnel involved in the closeout process follow internal controls intended to safeguard taxpayer funds.

## Criteria Ratings

According to information and documentation provided by Department officials, OIG determined that the Department's compliance with required internal controls for the closeout of its grants and cooperative agreements was generally adequate. Overall, Department policy incorporated all eight closeout requirements established in Federal criteria.<sup>8</sup> For example, Department policy required prompt payments to the grantees for allowable reimbursable costs under the Federal award being closed out<sup>9</sup> and completion of all closeout actions no later than 1 year after receipt and acceptance of all required final reports.<sup>10</sup> Therefore, OIG assigned a rating of "low" for the internal control criterion.

OIG assigned a rating of "low" for the criterion related to reconciling data between the grants management system, the payments system, and the financial systems because the Department had identified the risks created by using multiple systems and implemented mitigating controls to address that risk. For example, CGFS, in coordination with bureaus and posts, monitors the status of grants and cooperative agreements quarterly.

The criterion related to the availability of training and the incorporation of training in Department policy was rated "low" because the Department established a policy requiring Grants Officers and Grants Officer Representatives to complete appropriate training that includes the grant closeout process. The Department has implemented its training policy by providing classes almost monthly at different locations both domestically and overseas. The Department also established an online training option, making the training available for all personnel at any time.

OIG issued a report of its audit of the Department's grant closeout process in June 2013.<sup>11</sup> That report included 18 recommendations, all of which had been closed as of March 15, 2018. Therefore, OIG determined that the risk associated with the prior audit work criterion was "low." In addition, the Bureau of the Comptroller and Global Financial Services<sup>12</sup> completed an internal audit in January 2020.

The individual criterion ratings and overall combined rating are shown in Table 3.

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<sup>8</sup> OIG assessed and determined whether the Department had developed internal controls to address Federal grant closeout requirements set forth in Title 2 of the Code of Federal Regulations (CFR) 200.343, "Closeout."

<sup>9</sup> Title 2 CFR 200.343(c) states that "[t]he Federal awarding agency or pass-through entity must make prompt payments to the non-Federal entity for allowable reimbursable costs under the Federal award being closed out."

<sup>10</sup> Title 2 CFR 200.343(g) states that "[t]he Federal awarding agency or pass-through entity should complete all closeout actions for Federal awards no later than one year after receipt and acceptance of all required final reports."

<sup>11</sup> OIG, *Audit of Grant Closeout Processes for Selected Department of State Bureaus* (AUD-CG-13-31, June 2013).

<sup>12</sup> The Department's Bureau of the Comptroller and Global Financial Services is responsible for compliance and policy related to grants and cooperative agreements and GONE Act reporting.

**Table 3: Risk Rating by Criterion**

Criterion	Rating
Internal Controls	Low
Reconciliation Between Grant Management and Payment Systems	Low
Training	Low
Prior Audits	Low
<b>Combined</b>	<b>Low</b>

**Source:** Generated by OIG from an analysis of information and documentation associated with the Department’s grant and cooperative agreement closeout process.

### Impact and Likelihood Factor

Department officials reported that in FY 2017 the Department had 432 grants and cooperative agreements, valued at \$12,127,938, that had been expired for more than 2 years. Because in FY 2017 the majority (65 percent) of the Department’s expired grants and cooperative agreements were in the 2–3 year category (risk increases as the period of time that the grant or cooperative agreement is expired increases) and a total of 432 grants or cooperative agreements were expired, OIG determined that the overall impact and likelihood factor resulted in a “medium” rating, as shown in Table 4.<sup>13</sup>

**Table 4: Impact and Likelihood Factor**

		Rating
<b>Impact</b>	65 percent of the expired grants/cooperative agreements were in the 2–3 years category	Low
<b>Likelihood</b>	432 expired grants/cooperative agreements	Medium
<b>Impact and Likelihood Factor</b>		<b>Medium</b>

**Source:** Generated by OIG from an analysis of information and documentation associated with the Department’s grant and cooperative agreement closeout process and the Department’s GONE Act reporting.

### Risk Assessment

OIG determined that the risk related to the Department’s grant and cooperative agreement closeout process is “low.” On the basis of the results of this risk assessment, OIG concluded that an audit of the Department’s grant and cooperative agreement closeout process is not warranted in FY 2020. However, OIG will include an audit of the Department’s grant and cooperative agreement closeout process in its 2-year work plan covering FY 2022 through FY

<sup>13</sup> Refer to Appendix A: Purpose, Scope, and Methodology, Tables A.1 and A.2, for OIG’s methodology in determining the Impact and Likelihood Factor.

2023.<sup>14</sup> In the interim, OIG encourages Department officials to continue prudent oversight of its grant and cooperative agreement closeout process and to ensure that all personnel involved in the closeout process follow internal controls intended to safeguard taxpayer funds.

Table 5 shows the final risk assessment rating of “low” on the basis of a “medium” Impact and Likelihood Factor and a “low” Combined Criteria Rating.

**Table 5: Final Risk Assessment Rating**

		Final Rating		
		Very High	High	Very High
<b>Impact and Likelihood Factor</b>	Very High	Medium	High	Very High
	High	Medium	High	Very High
	Medium	Low	Medium	High
	Low	Very Low	Low	Medium
	Very Low	Very Low	Low	Medium
		Low	Medium	High
		<b>Combined Criteria Rating</b>		

**Source:** Generated by OIG from its review of information and documentation associated with the Department’s grant and cooperative agreement closeout process and the Department’s GONE Act reporting.

<sup>14</sup> The most recent audit that was performed of the Department’s grant and cooperative agreement closeout process was completed in FY 2013. OIG intends to audit the Department’s grant and cooperative agreement closeout process closeout, at a minimum, once every 10 years. Therefore, OIG’s 2-year work plan covering FY 2022 through FY 2023 will include an audit of the Department’s grant and cooperative agreement closeout process.

## APPENDIX A: PURPOSE, SCOPE, AND METHODOLOGY

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The Grants Oversight and New Efficiency (GONE) Act<sup>1</sup> requires that Inspectors General of agencies with more than \$500 million<sup>2</sup> in annual grant funding, such as the Department of State (Department), conduct risk assessments of their respective agencies' grant closeout process.<sup>3</sup> The objective of this risk assessment was to determine whether an audit or review of the Department's grant closeout process is warranted and to recommend the scope, frequency, and number of audits that should be conducted on the basis of the risk assessment. The Office of Inspector General (OIG) performed this risk assessment from January to February 2020.

This risk assessment was not an audit and therefore was not conducted in accordance with generally accepted government auditing standards. Instead, OIG conducted this risk assessment using industry standards.<sup>4</sup> The results of this risk assessment should not be interpreted to conclude that a grant closeout process with low risk is free of deficiencies. Conversely, a higher risk may not necessarily signify deficiencies, only that conditions are conducive to deficiencies. Regardless of the risk assessment results, if the grant closeout process were to be audited, an audit team might identify deficiencies through independent testing of grant and cooperative agreement awards. For example, a grant closeout process may be found to be "very low risk" on the basis of existing internal controls and documentation and other information provided by agency officials. However, an audit of a grant closeout process may determine that the internal controls outlined in an agency's policy are not being implemented appropriately and that illegal, improper, or erroneous grant activity is occurring.

### Assessment Criteria

To conduct this risk assessment, OIG reviewed and relied on grant data<sup>5</sup> included in the Department's December 2017 report<sup>6</sup> and December 2018 update<sup>7</sup> required by the GONE Act.

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<sup>1</sup> The Grants Oversight and New Efficiency Act. Pub. L. No. 114-117,130 Stat. 6 (2016).

<sup>2</sup> Pub. L. No. 114-117,130 Stat. 6 Section 2(c).

<sup>3</sup> In a November 29, 2017 letter, the Council of the Inspectors General on Integrity and Efficiency stated to Congress that it believed that the GONE Act lacked clarity regarding the date by which OIGs must conduct the risk assessment. Therefore, the letter also stated that OIGs would complete the risk assessments no later than March 31, 2020.

<sup>4</sup> Committee of Sponsoring Organizations of the Treadway Commission, "Enterprise Risk Management – Integrated Framework Executive Summary" (September 2004), and Deloitte & Touche, LLP, "Risk Assessment in Practice" (October 2012).

<sup>5</sup> In performing this risk assessment, OIG used grant data reported by the Department without independently verifying the data for accuracy and completeness.

<sup>6</sup> Pub. L. No. 114-117, 130 Stat. 6 § 2(a). The GONE Act required agencies to provide a report to Congress and the Department of Health and Human Services by December 31, 2017, that presented information on the total number of Federal grant awards, including the number of grants by time period of expiration, the number with zero-dollar balances, and the number with undisbursed balances. Agencies were also required to describe the challenges leading to delays in grant closeout and explain why each of the 30 oldest grant awards was not closed out.

<sup>7</sup> Pub. L. No. 114-117, 130 Stat. 6 § 2(b). The GONE Act required agencies to provide an update to the Department of Health and Human Services within 1 year of submitting the first report. Specifically, each agency was required to



These reports were prepared by the Department's Bureau of the Comptroller and Global Financial Services on the basis of data from various sources including the Global Financial Management System,<sup>8</sup> the Payment Management System,<sup>9</sup> the State Assistance Management System (SAMS),<sup>10</sup> and overseas posts.<sup>11</sup> OIG also reviewed documentation related to relevant internal controls, training, and prior audits of the Department's grant closeout process. OIG assessed the Department's closeout process using four criteria: internal controls, the reconciliation performed between the grants management system (i.e., SAMS) and the payment system (i.e., Payment Management System), training, and prior audits of the Department's grant and cooperative agreement closeout process. OIG assigned a rating of "low," "medium," or "high" to identify the risk associated with each factor.<sup>12</sup>

### ***Internal Controls***

OIG used criteria identified in Title 2 of the Code of Federal Regulations (CFR) 200.343, "Closeout," which describes Federal closeout requirements for grants and cooperative agreements, to assess the Department's internal controls associated with the closeout of its grants and cooperative agreements. OIG assessed the Department's grant and cooperative agreement closeout process for eight general internal controls. For example, OIG assessed whether internal controls existed to identify expired grant accounts that should be considered for closeout on the basis of 2 CFR §200.343(a), which specifies that within 90 calendar days from the period of performance end date, grantees must submit all financial, performance, and other reports as required by the terms and conditions of the award.<sup>13</sup> OIG assigned a rating of "low," "medium," or "high" on the basis of documented compliance with required internal controls. OIG assigned a "low" rating when the Department's grant and cooperative agreement closeout process had a high percentage (more than 75 percent) of compliant internal controls.

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specify whether it had closed out all grant awards identified in the first report and identify all awards that were not closed.

<sup>8</sup> The Global Financial Management System is the Department's domestic accounting system.

<sup>9</sup> The Payment Management System is a payment system that is operated by the Department of Health and Human Services. The Payment Management System allows grantees and awarding agencies to manage payment-related activities, including grant payment requests, drawing down Federal funds from preauthorized grant accounts, and disbursement reporting. To help Federal grant-making agencies identify and close out grant accounts in a timely manner, the Department of Health and Human Services makes available a quarterly "closeout" report.

<sup>10</sup> SAMS is the Department's Federal assistance management system. The Department had not fully deployed SAMS to all overseas posts when the Bureau of the Comptroller and Global Financial Services generated the GONE Act reports.

<sup>11</sup> To identify expired overseas grants and cooperative agreements, the Bureau of the Comptroller and Global Financial Services obtained information from the Global Financial Management System, accountants at the two Financial Service Centers (Charleston, SC, and Bangkok, Thailand), the overseas financial management system, and post officials.

<sup>12</sup> OIG team members used professional judgment to determine compliance with requirements in assessing risk ratings for each factor.

<sup>13</sup> Title 2 CFR 200.343(a) states that "[t]he non-Federal entity must submit, no later than 90 calendar days after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the Federal award."

OIG assigned a “medium” rating when the Department’s grant and cooperative agreement closeout process was below the high percentage of compliant internal controls and below a high percentage of non-compliant internal controls. OIG assigned a “high” rating when the Department’s grant and cooperative agreement closeout process had a high percentage (more than 50 percent) of non-compliant internal controls.

### ***Reconciliation Between the Grant Management and Payment Systems***

The Department uses a grants management system (i.e., SAMS) and a separate payment system (i.e., the Payment Management System). As noted in a 2016 Government Accountability Office report,<sup>14</sup> the separation between grants management systems and payment systems presents challenges when agencies attempt to reconcile final reports and close out grants. OIG assigned a “low” rating when this risk was recognized by the Department and controls were implemented to mitigate the risk. OIG assigned a “medium” rating when this risk was recognized but controls were not implemented to mitigate the risk. OIG assigned a “high” rating when the Department had not identified or recognized the risk and had taken no action to mitigate this risk.

### ***Training***

OIG assigned the Department’s grant and cooperative agreement closeout process a rating of “low,” “medium,” or “high” on the basis of the availability of training and the incorporation of training that specifically addresses the grant and cooperative agreement closeout procedures in Department policy. OIG assigned a “low” rating when training was available and incorporated into policies. OIG assigned a “medium” rating when training was available but not incorporated into policies or if training was incorporated into a policy but was unavailable. OIG assigned a “high” rating when training was not available and was not incorporated into the organization’s policies.

### ***Prior Audits***

OIG reviewed the results of prior audits as well as the implementation status of associated recommendations. OIG assigned a “low” rating when the Department’s grant and cooperative agreement closeout process had been audited within 10 years and recommendations had been implemented. OIG assigned a “medium” rating when the Department’s grant and cooperative agreement closeout process had been audited within 10 years and the Department had not fully implemented recommendations. OIG assigned a “high” rating when the Department’s grant and cooperative agreement closeout process had not been audited within 10 years. In addition, the rating risk factor was mitigated when the Department provided documentation demonstrating that it had conducted meaningful internal reviews of its grant and cooperative agreement closeout process.

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<sup>14</sup> Government Accountability Office, *Actions Needed to Address Persistent Grant Closeout Timeliness and Undisbursed Balance Issues* (GAO-16-362, April 2016).

## Impact and Likelihood

Impact refers to the extent to which a risk event might affect the Department, and likelihood represents the possibility that a given event might occur. The GONE Act required agencies to report the total number of grants and cooperative agreements held by agencies in three different age categories because risk and cost increase the longer expired awards are held. OIG assigned an impact rating of “low,” “medium,” or “high” on the basis of which age category contained the highest percentage of expired grants and cooperative agreements held by the Department in FY 2017. OIG assigned a likelihood rating of “low,” “medium,” or “high” on the basis of the total number of expired grants and cooperative agreements held by the Department in FY 2017. The rating criteria are shown in Table A.1.

**Table A.1: Impact and Likelihood Ratings**

Rating	Impact	Likelihood
Low	Highest percentage of expired grants/cooperative agreements were in the expired 2–3 years category	Fewer than 200 expired grants/cooperative agreements
Medium	Highest percentage of expired grants/cooperative agreements were in the expired 3–5 years category	200 to 500 expired grants/cooperative agreements
High	Highest percentage of expired grants/cooperative agreements were in the expired >5 years category	More than 500 expired grants/cooperative agreements

**Source:** Generated by OIG from industry standards and principles for risk management.

Using the information obtained in Table A.1, OIG plotted the impact and likelihood ratings on a table known as a “heat map,” which depicts the intersections of the ratings, to determine a rating for the impact and likelihood factor. The heat map is shown in Table A.2. OIG used this single impact and likelihood combined “factor” in the final overall risk assessment (Table A.3) of the Department’s grant and cooperative agreement closeout process.

**Table A.2. Impact and Likelihood Factor Heat Map**

		Factor		
		Higher	Medium	High
Impact Rating	Higher	Medium	High	Very High
	Medium	Low	Medium	High
	Lower	Very Low	Low	Medium
		Lower	Medium	Higher
		Likelihood Rating		

**Source:** Generated by OIG from industry standards and principles for risk management.

## Final Risk Assessment

OIG plotted the combined individual criteria rating found in Table A.1, along with the combined impact and likelihood factor found in Table A.2, to determine the final risk assessment rating for the Department’s grant and cooperative agreement closeout process. Specifically, OIG used the final risk assessment heat map shown in Table A.3 to arrive at the overall risk assessment rating.

**Table A.3. Final Risk Assessment Heat Map**

		Final Rating		
		Very High	High	Very High
Impact and Likelihood Factor	Very High	Medium	High	Very High
	High	Medium	High	Very High
	Medium	Low	Medium	High
	Low	Very Low	Low	Medium
	Very Low	Very Low	Low	Medium
		Low	Medium	High
		Combined Criteria Rating		

**Source:** Generated by OIG from industry standards and principles for risk management.

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